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## DIRECTORATE OF INTELLIGENCE

14 October 1986

**New Zealand: Prospects for Early Elections**

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## Summary

Although New Zealand does not have a tradition of early elections, the fundamental changes in foreign and domestic policy since Prime Minister Lange assumed office in July 1984 are generating speculation that he might call snap elections while his personal popularity is high and before the opposition National Party's organizational strength improves. Nevertheless, in view of the expected economic recovery next year, among other things, we believe that Lange probably will wait to call elections until September 1987, the latest date possible under New Zealand election rules. In our judgment, the National Party has less than an even chance of defeating Lange if he chooses this option. We believe National's prospects would be better in an early ballot, probably between now and March, before signs of an improving economy undercut what would be National's main election issue.

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**Factors for Lange To Consider**

**The Opposition.** If Lange decides on snap elections immediately, probably before Parliament's Christmas recess, it would be to take advantage of the opposition's current weakness. The National Party--which favors resuming US ship visits--is only now recovering from the 1984 defeat of former Prime Minister Muldoon and is beginning to improve its organizational capabilities, according to the US Embassy. The party, for instance, has recently selected an experienced organizer and political moderate, Neville Young, as president, but he has not had enough time to put his stamp on the party. In addition,

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the moderate platform designed by National's leader Jim Bolger to widen the party's appeal shows signs of taking hold. Bolger's popularity rating in public opinion polls has more than doubled in recent months--from 6 percent of respondents preferring him as prime minister when he was selected to head the party in March to 15 percent in a September poll (see figure 1). Moreover, Bolger has consolidated his position within the Parliamentary caucus by making Muldoon spokesman for foreign affairs, a move that has placated die-hard Muldoon supporters, according to the Embassy. [ ]

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Although these developments should help the National Party in time, it continues to trail Labor in opinion polls--by 53 to 44 percent last month. Party strategists admit to US Embassy officials that Bolger probably will need a year to prepare the party platform and candidate slate for the next election. [ ]

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**Swing Seats.** Critical to Lange's timing is his view of how well he would fare in 24 marginal districts--where a 5-percent swing would cause the incumbent to lose the seat, according to New Zealand election data (see figure 2). Labor Party officials have admitted privately to US Embassy officials that they do not expect to pick up any of the National Party's 13 marginal seats, so the Embassy expects the Labor Party to run a defensive campaign to keep its own marginal seats. The National Party, nevertheless, faces an uphill battle to unseat Labor because it must capture 10 of the 11 marginal seats held by Labor and the independent Democratic Party. [ ]

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The redistricting of parliamentary seats due next April further complicates Lange's strategy. Two or possibly three new seats will be created. Although the US Embassy expects the Labor and National parties to split the new seats, it believes that the redistricting process could favor the National Party in several marginal districts. Furthermore, redistricting also would require the Labor Party to renominate candidates in redrawn districts--a process that could renew Labor Party infighting between the trade unions and the so-called intellectual wing. Nonetheless, Lange may be tempted to wait for the redistricting to be completed because the new seats will be in northern urban areas, probably near Auckland--Labor's strongest base of support--and, should the Labor Party capture the new seats, the Nationals would have to sweep all Labor and Democrat marginal seats to form a government. [ ]

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**Antinuclear and Defense Issues.** The ANZUS alliance is unlikely to become a major campaign issue because voter interest is low. Only 3 percent of poll respondents name the ANZUS dispute--defined in the polls as the Labor government's proposed legislation that bans port calls by nuclear-powered or nuclear-armed ships--as the most serious concern facing New Zealand, compared with 8 percent a year ago. Moreover, the National Party is wary of being labelled pro-nuclear, so it probably will not attack the antinuclear legislation directly, but will stress the damage to relations with the United States. [ ]

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Nevertheless, the timing of the elections will determine to what extent Lange can benefit from the general public support for his antinuclear policies. We believe that the next few months are an inopportune time for Lange to capitalize on antinuclear sentiment. For one thing, passage of the legislation has become anticlimactic in the wake of the United States'

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suspension of its defense obligations to New Zealand last August, and Lange has little more to gain on this issue from his Party's left wing. [ ]

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More significantly in our judgment, a government-appointed committee--chaired by former Foreign Secretary Frank Corner--publicly charged in August that Lange and several Labor government ministers misrepresented the ANZUS alliance to the public to secure support for the nuclear ship ban. The Corner Report also revealed that a majority of New Zealanders would prefer remaining in the ANZUS alliance to having a nuclear ship ban that disrupts ANZUS. [ ]

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We believe Lange is hoping to offset the political damage of the Corner Report with a Defense Review Committee that is expected to issue a draft this month, probably endorsing Lange's approach to defense policy. Lange most likely wants to use the first half of next year to win public support for the Defense Review Committee's recommendations, overcome opposition charges that he interjected politics into the defense review process, and allow time for the public to forget the criticisms in the Corner Report. Lange's vulnerability to opposition charges of mismanagement of the ship ban issue and his desire to avoid further discussion of the antinuclear legislation at this time is, in our judgment, underscored in the Prime Minister's announcement last month that Parliament probably will not debate the antinuclear bill until next year. [ ]

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**Economic factors.** We believe the state of the economy will be the most important factor in determining when Lange calls elections, and Lange's strategy probably will be driven largely by the economy's impact on urban and mixed urban-rural districts. The rural vote is a traditional National Party constituency and is likely to vote against Lange no matter when elections are held or how the economy is performing. A strong incentive to vote National in the next election is the Labor government's policy of removing agricultural subsidies, which has intensified the economic slump in rural areas already hit hard by declining world commodity prices. [ ]

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Lange might believe he would benefit from calling elections now because New Zealand economists expect the recession that began in 1984 to deepen until the end of 1986 and result in a two-percent contraction in real gross domestic product for the year. Lange also knows that the opposition has failed to regain the support of the business community--National Party stalwarts until the 1984 election--because business leaders endorse Labor's free-market agenda. And Lange has staked his political future on making major structural improvements to the economy by eliminating high tariffs and subsidies and by removing many restrictions on financial transactions and has followed this course even at the expense of angering the left wing of the Labor Party. Moreover, Lange might believe that holding elections now would prevent a further erosion of financial and campaign support from trade unions --which are opposed to Lange's economic reform agenda and his reversal of the party's traditional welfare-state programs. [ ]

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On the other hand, a new round of wage negotiations--which are centralized in New Zealand--began last month and the US Embassy says that the Lange government has made clear that it will try to contain wage increases to keep New Zealand's manufactured exports competitive in world markets and to

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maintain low-tariff and low-inflation goals.\* Given the difficulties involved in negotiating contracts, we believe either the trade unions or the business community will be dissatisfied with the outcome and Lange will probably want to allow tempers to cool before entering a campaign. [ ]

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In any event, Lange's decision will be strongly influenced by Finance Minister Douglas, the architect of the government's free-market agenda, who, according to the US Embassy, assures Lange that recovery is on the way. Douglas is convinced that tax reforms will speed a recovery in the business cycle that he expects to begin in the first quarter of 1987, according to press reports. Interest rates and inflation already are easing, the financial and services sectors are expanding, and office construction in the three largest cities--Auckland, Wellington, and Christchurch--is booming, according to press reports. In addition, tourism is thriving--a development for which Lange takes credit by claiming that his government's nuclear warship ban attracts world interest in the country. [ ]

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We believe Douglas will advise Lange to wait at least until the January-March quarter growth figures are available. If results indicate an upturn, Douglas might argue for an election midyear--if for no other reason than that holding elections before July would allow him to postpone another budget wrangle with the party's trade union and leftwing constituencies until after the balloting. [ ]

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Overall real growth next year is likely to be 1 to 2 percent, in our judgment, which would be significantly better than this year's expected contraction and a five-year average of zero real growth. Because next year probably will be better than this, Lange has little to lose by waiting until September. The one snag, in our judgment, for translating the anticipated economic upturn into political success at the polls is that the sectors growing fastest are too small to absorb heavy job losses in the large manufacturing and farming sectors as these adjust to a more competitive environment. Unemployment is especially troublesome in the mixed urban-rural districts where Labor's fate will be decided, according to the US Embassy, and probably would only improve significantly in the unlikely event that world agricultural prices rise. [ ]

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### Implications of Lange's Strategy

In our judgment, the opposition National Party would stand the best chance of defeating Lange if he called elections sometime early next year. By then we believe the National Party would be better organized and probably would have a definite slate of candidates for the not-yet-redistricted races. In addition, a large number of voters probably would not yet be feeling the effects of the expected economic recovery, and so would not be convinced of the wisdom of Labor's economic policies. Prospects for a National Party victory, however, are not much above 50-50 even in this case,

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\*Union membership in New Zealand is compulsory, and each year 383 labor contracts covering all wage earners are negotiated through a federal organization. The system makes wages within each occupation largely uniform throughout the country without regard for company profitability or competitive position. [ ]

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in our judgment, and would diminish as the economic recovery takes effect. From Labor's perspective, Lange's best chance of defeating the National Party--and maintaining the Labor Party's antinuclear policies for a second three-year term--would be to wait as long as legally possible to go to the polls, which in this case means until September 1987.

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Figure 1

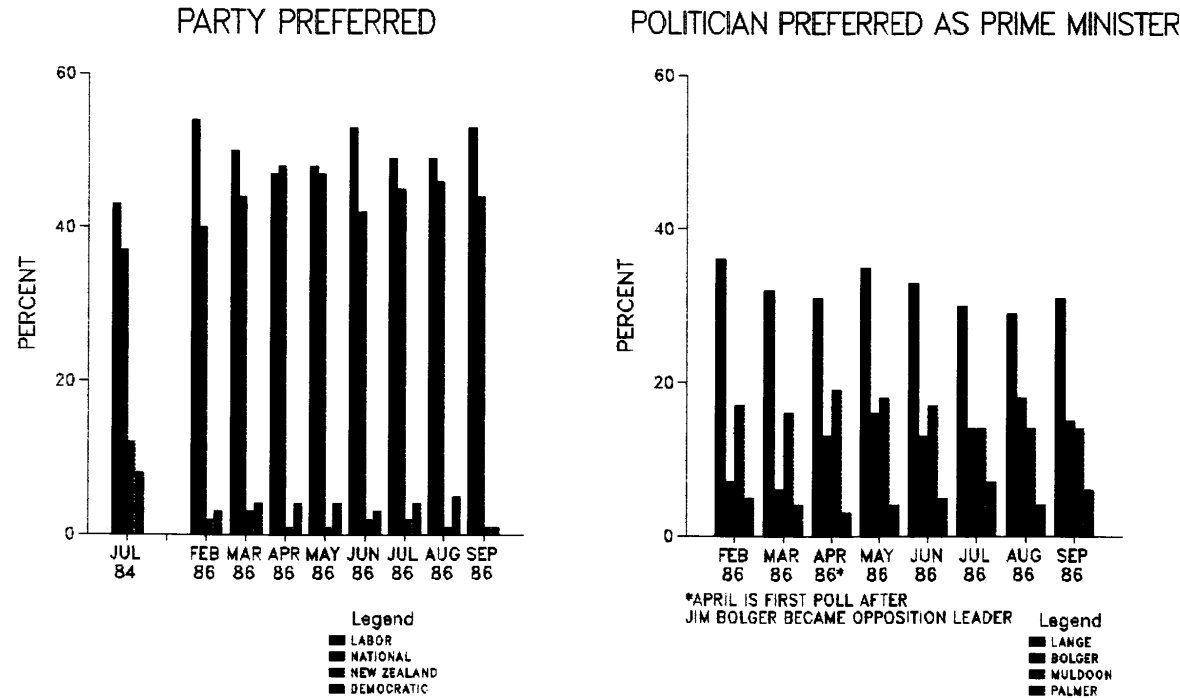
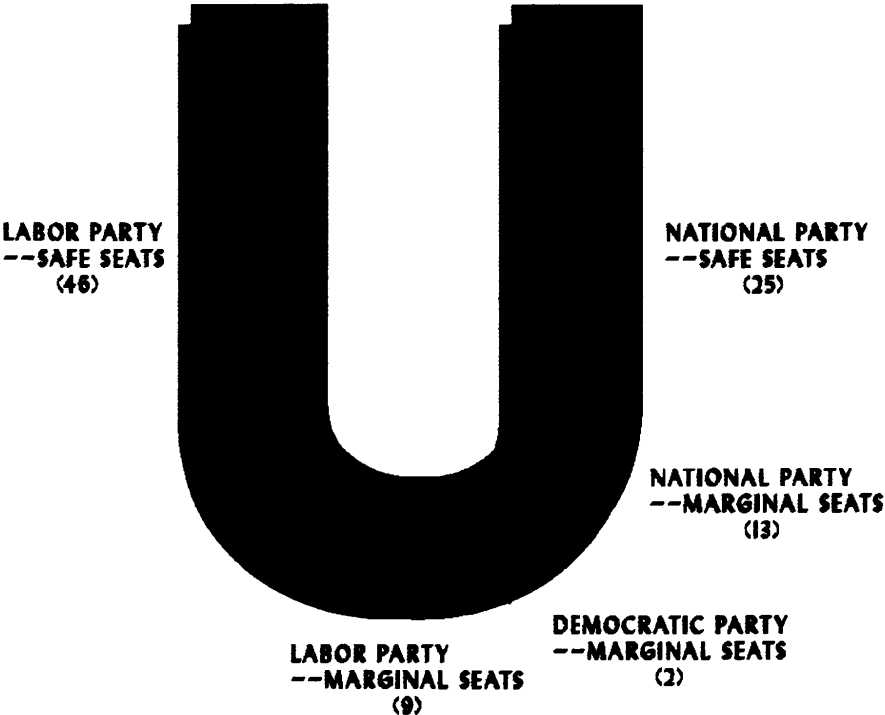


Figure 2

**NEW ZEALAND: HOUSE OF REPRESENTATIVES\*  
COMPOSITION BY PARTY**



**\*AT PRESENT, 95 SEATS. (48 SEATS REQUIRED TO FORM A  
GOVERNMENT.) AFTER APRIL REDISTRICTING, 97 OR 98 SEATS.**

SUBJECT: New Zealand: Prospects for Early Elections

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